

VZCZCXRO9026  
RR RUEHCN RUEHFK RUEHKSO RUEHNAG RUEHNH  
DE RUEHKO #0831/01 0470407  
ZNR UUUUU ZZH  
R 160407Z FEB 06  
FM AMEMBASSY TOKYO  
TO RUEHC/SECSTATE WASHDC 8707  
INFO RUCPDO/USDOC WASHDC  
RUEATRS/TREASURY DEPT WASHDC  
RUEHRC/DEPT OF AGRICULTURE WASHINGTON DC  
RUEHBJ/AMEMBASSY BEIJING 0637  
RUEHIN/AIT TAIPEI 5903  
RUEHBK/AMEMBASSY BANGKOK 3435  
RUEHHI/AMEMBASSY HANOI 0865  
RUEHML/AMEMBASSY MANILA 0595  
RUEHUL/AMEMBASSY SEOUL 6830  
RUEHHK/AMCONSUL HONG KONG 5892  
RUEHOK/AMCONSUL OSAKA KOBE 7733  
RUEHNAG/AMCONSUL NAGOYA 4724  
RUEHFK/AMCONSUL FUKUOKA 4650  
RUEHKSO/AMCONSUL SAPPORO 5851  
RUEHNH/AMCONSUL NAHA 7295  
RUEHCN/AMCONSUL CHENGDU 0035  
RUEHGZ/AMCONSUL GUANGZHOU 1184  
RUESLE/AMCONSUL SHANGHAI 1983  
RUEHSH/AMCONSUL SHENYANG 0281

UNCLAS SECTION 01 OF 07 TOKYO 000831

SIPDIS

SENSITIVE

SIPDIS

DEPT PASS USTR FOR AUSTRS CUTLER AND STRATFORD

TREASURY FOR EAST ASIAN NATIONS - DOHNER/KOEPKE

TREASURY ALSO FOR INTERNATIONAL - LOEVINGER AND SOBEL

TREASURY ALSO FOR IMB - SUSAN BANKER

COMMERCE FOR ITA/OFFICE OF JAPAN-NMELCHER/DAS LEVINE

AGRICULTURE FOR ITP - SHEIKH AND HENKE

E.O. 12958: N/A

TAGS: [ECON](#) [ETRD](#) [EINV](#) [EAGR](#) [EFIN](#) [PREL](#) [CH](#)

SUBJECT: Japan-China Economic Ties Remain Strong  
Despite Political Tensions

REF: Tokyo 822

¶1. (SBU) Summary: The economic relationship between Japan and China has continued to expand in spite of political frictions, according to Japanese Government trade and investment statistics. Japan's total trade with China (with the inclusion of trade with Hong Kong) again exceeded that between Japan and the United States in 2005. Japanese exports to China increased over eight percent while imports rose 17 percent. The pattern of trade continued to show strong complementarities between the two economies, with intermediate goods dominating Japan's exports to China and finished consumer goods and food items forming the most significant portion of Chinese exports to Japan. Japanese direct investment in China also continued to show strong growth, rising close to 50 percent year-on-year. End summary.

-----  
China (plus HK) Again Japan's Top Trading Partner  
-----

¶2. (U) On a straight bilateral basis, the United States was Japan's top trading partner in 2005, according to statistics from the Japanese Ministry of

Finance. Total trade (exports plus imports) with the United States equaled JPY 21.9 trillion (approximately USD 190 billion at an exchange rate of JPY 115:USD 1). Exports to the United States rose nearly eight percent while imports increased over four percent. China came a close second in total trade, with the combined value of exports and imports between the two countries reaching JPY 20.8 trillion (approximately USD 181 billion). (Table 1) Total Japanese exports to China rose by close to 11 percent, but imports from China grew substantially faster, exceeding 17 percent year-on-year. (Table 3)

¶3. (U) If total trade with China's Hong Kong Special Administrative Region -- a substantial portion of which, perhaps as much as 95 percent, could have the Chinese mainland as its final destination -- is added to the China figure, however, the "Greater China" total accounts for slightly over 20 percent of Japan's global trade as opposed to about 18 percent in the case of the United States. Export growth to China and Hong Kong combined slowed by about half in 2005, declining to about eight percent from a rate of just over 17 percent a year earlier. Imports, however, continued to show strong growth, rising 17 percent year-on-year in 2005, slightly faster than the 16.7 percent rate recorded in ¶2004. (Interestingly, trade with Hong Kong as compared to mainland China was relatively sluggish with Japanese exports growing only 3.6 percent and imports actually falling 1.4 percent year-on-year.)

¶4. (U) More important, however, is the difference in

TOKYO 00000831 002 OF 007

the trade balance between Japan's two main commercial relationships. Although Japanese figures for trade with China alone show a substantial trade deficit of JPY 3.1 trillion (about USD 27 billion), the inclusion of Hong Kong and its deficit with Japan of nearly JPY 3.8 trillion indicates that Japan enjoyed a small overall trade surplus with "Greater China" of JPY 668 billion (USD 5.8 billion). This surplus is, in fact, about half of what it was in 2004 and 2003. In contrast, Japan's trade surplus with the United States in 2005 was nearly USD 83 billion, according to U.S. Commerce Department data.

-----  
Trade Patterns Highlight Complementary Economies  
-----

¶5. (U) The structure of China-Japan trade is also, not surprisingly, different from China-U.S. trade. General machinery, electronics, and transportation equipment (including automobiles) account for about 65 percent of Japan's global exports. (These three categories make up about 75 percent of exports to both the United States and the European Union.) In the case of China, although the proportions of Japanese machinery and electronics exports (21.2 percent and 25.9 percent respectively) are consistent with the global totals (20.3 percent and 22.2 percent, respectively), transportation equipment only accounted for a mere five percent of Japan's exports to China and motor vehicles only about two percent. (Table 4) Transportation equipment, however, composed nearly 37 percent of Japan's exports to the United States, with automobiles alone accounting for close to 27 percent.

¶6. (U) Chinese customs figures for 2005 list Japan, at 15 percent of all imports, as China's leading import supplier. Japanese data indicate that much of this trade consisted of processed goods and materials, much of which was likely reprocessed into Chinese exports. In particular, China (including Hong Kong) absorbed nearly one-third (31 percent) of Japan's exports of

electronics parts (switches, fuses), parts for audio-visual equipment, and semiconductors and over a quarter (26 percent) of all electronics exports. In addition, Japanese exports to China of manufactured goods (excluding machinery, electronics, and transportation equipment) made up over a quarter of Japan's exports in this category. Steel, in particular, figured prominently in this category, comprising seven percent of Japan's total exports to China, according to Japanese figures.

17. (U) On the Japanese side of the equation, goods from China, while constituting only about 21 percent of all of Japan's imports, dominated a few categories. (Table 5) Most notably, over four-fifths (81.2 percent) of Japan's imported clothing and accessories

TOKYO 00000831 003 OF 007

came from China in 2005. Furthermore, China produced over half of all computers (55 percent) and of audio-visual devices (52 percent) imported into Japan last year. Fifteen percent of Japan's imported food (particularly seafood) also originated in China.

-----  
Japanese Investment Growth in China Remains Strong  
-----

18. (U) Japanese direct investment into China in 2005 totaled JPY 726 billion, making China the second largest recipient of Japanese investment after the United States, which received over JPY 1.3 trillion last year. Japanese investment in China increased almost 48 percent over 2004, an acceleration of 10 percentage points but still not as great a rise as the 65 percent gain recorded in 2003.

19. (U) Time series data on Japanese exports also appear to indicate a rapid expansion of Japanese investment outside the Pearl River Delta region of Guangdong Province next to Hong Kong. Although this area still seems to account for about 40-50 percent of consumption of such Japanese-produced intermediate goods like switches and semiconductors, the share of exports to Hong Kong as a proportion of overall exports to China and Hong Kong combined has fallen from nearly 50 percent in 2000 to only 30 percent in 2005.

110. (U) Nevertheless, Japanese foreign investment in China remains highly concentrated in a few areas and industries. Data for Japanese companies operating in Japan collected by Japan's Ministry of Economy, Trade, and Industry shows that in 2003, half of all Japanese firms operating in China were located in the East China region (Shanghai Municipality, Jiangsu Province, and Zhejiang Province). (Table 7) Data for the January-September period of 2005 also shows that manufacturing accounted for 77 percent of Japanese investment in China by value. Three industries combined -- transport equipment (16 percent), electrical equipment (13 percent), and chemicals and pharmaceuticals (10 percent) -- accounted for nearly 40 percent of all Japanese investment in China through the third quarter of 2005. (It is worth noting, however, that investment in the transport equipment industry accounted for close to 37 percent of all Japanese direct investment in China in 2004.) Outside manufacturing, wholesale and retail trade and finance and insurance were the two dominant areas of investment, each accounting for about JPY 38 billion and 7-8 percent of total investment, respectively.

-----  
Comment  
-----

¶11. (SBU) Although the available statistics cannot fully capture the depth and complexity of the economic relationship between Japan and China, the latest data do support the conclusion that the trade and investment ties between the two countries continue to grow in spite of the frosty state of their diplomatic relations. (REFTEL) Notably, the Anti-Japanese demonstrations in China of April 2005 did not lead to a slowing of investment (although it is difficult to determine whether the increase in investment might have been greater had the demonstrations not taken place). Trade between the two largest Asian economies also continues to be highly complementary, with Japan largely supplying inputs to Chinese industry and China producing consumer goods for export to Japan and elsewhere. That said, China appears to be the more vulnerable partner in the relationship, as its imports from Japan are both more important to maintaining other industries and less readily available from other suppliers. One shared characteristic, however, is that Japan and China both have their largest trade surplus with the United States, suggesting that both have an interest in maintaining the health of the U.S. economy and Americans' capacity to consume.

¶12. (U) Tables:

Table 1

Japan's Top Trading Partners (2005)  
(Unit: JPY Billion)

Country/ Region	Total Trade	Exports	Imports	Balance
-----	-----	-----	-----	-----
U.S.	21,878	14,807	7,071	7,736
China (ex HK)	20,806	8,839	11,967	-3,128
(Hong Kong)	4,142	3,969	173	3,795)
ASEAN	16,346	8,342	8,004	338
EU	16,119	9,653	6,467	3,186
South Korea	7,840	5,143	2,696	2,447
Taiwan	7,628	4,810	1,991	2,818

Source: Japanese Ministry of Finance

Table 2

Top Trading Partners' Share of Japan's Global Trade  
(2005)  
(Unit: Percent)

	Exports	Imports
	-----	-----
United States	22.5	12.4
China (plus HK)	19.5	21.3
EU	14.7	11.4
ASEAN	12.7	14.1
Middle East	2.8	17.0

Source: Japanese Ministry of Finance

Table 3

Japanese Trade with China and Hong Kong 2000-2005  
(Unit: JPY Billion. Number in parentheses is percent change from previous year.)

	Exports	Imports	Balance
2000			
China	3,274 (23.2)	5,941 (21.9)	-2,667

Hong Kong	2,930 (16.9)	180 (-11.3)	2,750
Total	6,204 (20.1)	6,121 (20.5)	83
2001			
China	3,764 (15.0)	7,027 (18.3)	-3,263
Hong Kong	2,826 (-3.5)	177 (-1.7)	2,649
Total	6,590 (6.2)	7,204 (17.7)	-614
2002			
China	4,980 (32.3)	7,728 (10.0)	-2,748
Hong Kong	3,176 (8.4)	178 (0.6)	2,998
Total	8,156 (23.8)	7,906 (9.7)	250
2003			
China	6,635 (33.2)	8,731 (13.0)	-2,096
Hong Kong	3,455 (8.9)	156 (-12.4)	3,299
Total	10,090 (23.7)	8,887 (12.4)	1,203
2004			
China	7,994 (20.5)	10,199 (16.8)	-2,205
Hong Kong	3,831 (10.9)	176 (12.8)	3,655
Total	11,825 (17.2)	10,375 (16.7)	1,450
2005			
China	8,839 (10.6)	11,967 (17.3)	-3,128
Hong Kong	3,969 (3.6)	173 (-1.7)	3,796
Total	12,808 (8.3)	12,140 (17.0)	668

Table 4

Japanese Exports to China and Hong Kong (2005)  
(Unit: JPY Billion)

Commodity	World	China	HK	China plus HK/ World (%)
-----	-----	-----	-----	-----
All Goods	65,662	8,839	3,969	19.5
Food	319	39	49	27.6
Raw Materials	743	298	18	42.5
Mineral Fuels	475	135	28	34.3
Chemicals	5,849	1,150	346	25.6
Manufactures	7,397	1,454	395	25.0
--Steel	3,037	618	94	23.4
Machinery	13,324	1,874	460	17.5
Elec. Machinery	14,561	2,287	1,534	26.2
--Semiconductors	4,402	716	718	32.6
--Electrical				
Apparatus	1,686	361	190	32.7
--Audio-Visual				
Parts	1,302	311	195	38.9

TOKYO 00000831 006 OF 007

Trans. Equip.	15,198	446	201	4.3
--Motor vehicles	9,929	142	64	2.1

Source: Japanese Ministry of Finance

Table 5

Japanese Imports from China and Hong Kong (2005)  
(Unit: JPY Billion)

Commodity	World	China	HK	China plus HK/ World (%)
-----	-----	-----	-----	-----
All Goods	56,881	11,967	173	21.3
Food	5,557	868	3	15.7
Raw Materials	3,469	185	1	5.3
Mineral Fuels	14,552	361	0	2.5
Chemicals	4,321	471	1	10.9
Manufactures	5,415	1,446	23	27.1
Machinery	5,634	2,027	20	36.3
--Computers	2,053	1,110	12	54.7
Elec. Machinery	7,414	2,300	29	31.4
--Audio-visual				
Equipment	1,598	825	6	52.0
Trans. Equip.	2,062	173	2	8.4
Clothing and				
Accessories	2,469	1,999	6	81.2

Source: Japanese Ministry of Finance

Table 6

Japanese Direct Investment in China 2000-2004  
(Units: Projects; JPY Billion; percent change from previous year in parentheses)

	Projects		Value		Share of Japan Outward FDI (pct.)
	-----		-----		-----
2000	106 (34.2)		111.4 (29.8)		2.0
2001	189 (78.3)		181.9 (63.3)		4.5
2002	263 (39.2)		215.2 (18.3)		4.8
2003	332 (26.2)		355.3 (65.1)		8.7
2004	361 (8.7)		490.9 (38.2)		12.8
2005	N/A (N/A)		725.8 (47.9)		14.4

Source: Japanese Ministry of Finance

Table 7

Japanese Companies Operating in China (2003)  
(Unit: Enterprises. Numbers in parentheses are

TOKYO 00000831 007 OF 007

percent of "All China" total.)

	All China	East	South	North	NE	Cent.	West
	-----	-----	-----	-----	-----	-----	-----
Total	4,864 (100)	2,451 (50)	688 (14)	971 (20)	471 (10)	107 (2)	176 (4)

of which:

Food	302 (6)	82 (27)	36 (12)	119 (39)	43 (14)	7 (2)	15 (5)
Textiles	629 (13)	405 (64)	40 (6)	106 (17)	51 (8)	16 (3)	11 (2)
Chemicals	481 (10)	234 (49)	95 (20)	80 (17)	41 (9)	8 (2)	23 (5)
Machinery	378 (8)	194 (51)	57 (15)	66 (17)	39 (10)	12 (3)	10 (3)
Electrical Equipment	640 (13)	275 (43)	163 (25)	121 (19)	58 (9)	10 (2)	13 (2)
Transport Equipment	224 (5)	77 (34)	43 (19)	42 (19)	9 (4)	15 (7)	38 (17)
Wholesale Industry	483 (10)	361 (75)	35 (7)	50 (10)	33 (7)	2 (0)	2 (0)
Services	309 (6)	140 (45)	29 (9)	85 (28)	32 (10)	6 (2)	17 (6)

Source: Japanese Ministry of Economy, Trade, and Industry, "White Paper on International Economy and Trade 2005"

SCHIEFFER